

**City of Maquoketa**

**Financial Report**

**June 30, 2006**

## ***Table of Contents***

## ***Page(s)***

<b>List of Officials</b>	1
<b>Independent Auditor's Report</b>	2 – 3
<b>Management's Discussion and Analysis</b>	4 – 13

### **Basic Financial Statements**

#### **Exhibit**

Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	B	15
Reconciliation of the Statements of Cash Receipts, Disbursements, and Changes in Cash Balances to the Statement of Activities and Net Assets	C	16
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	D	17
Reconciliation of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances to the Statement of Activities and Net Assets	E	18
Fiduciary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	F	19
Notes to Financial Statements		20 – 34

### **Required Supplementary Information**

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		35
Notes to Required Supplementary Information – Budgetary Reporting		36

### **Other Supplementary Information**

#### **Schedule**

Statement of Cash Receipts, Disbursements, and Changes in Cash Balances – Nonmajor Governmental Funds	1	37 – 38
Schedule of Indebtedness	2	39

## ***Table of Contents***

## ***Page(s)***

	<u>Schedule</u>	
Schedule of Bond and Note Maturities	3	40 – 41
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	4	42
Additional Information Required by the Sewer Revenue Bond Resolution (Unaudited)	5	43
Schedule of Expenditures of Federal Awards		44
Notes to the Schedule of Expenditures of Federal Awards		45
<b>Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards</b>		46 – 47
<b>Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133</b>		48 - 49
Schedule of Findings and Questioned Costs		50 – 54

## City of Maquoketa

### List of Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tom Messerli	Mayor	January 1, 2008
Matt Winegar	Council Member	January 1, 2008
Neil Morehead	Council Member	January 1, 2008
Marsha Myers	Council Member	January 1, 2008
Paul Hahle	Council Member	January 1, 2008
Jason Hute	Council Member	January 1, 2010
Tim Clark	Council Member	January 1, 2010
Galen Saunders	Council Member	January 1, 2010
Brian Wagner	City Manager	Indefinite
Judy Carr	Deputy City Clerk	Indefinite
Diane Frandsen	City Treasurer	Indefinite
Mark Lawson	City Attorney	Indefinite



**Honkamp Krueger & Co., PC.**  
Certified Public Accountants  
& Business Consultants

## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Maquoketa  
Maquoketa, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Maquoketa, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the management of the City of Maquoketa, Iowa. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Maquoketa Municipal Electric Utility, a discretely presented component unit of the City of Maquoketa. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Maquoketa Municipal Electric Utility, is based solely on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

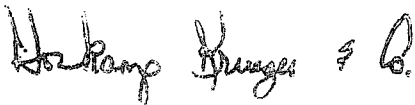
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Maquoketa as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended, in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2006, on our consideration of the City of Maquoketa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 36 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Maquoketa's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein), and expressed unqualified opinions on those financial statements, which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Handwritten signature of Mark A. Hanger in cursive script.

Dubuque, Iowa  
August 14, 2006

## **City of Maquoketa Management's Discussion and Analysis**

The City of Maquoketa provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

This discussion and analysis is intended to be an easily readable analysis of the City's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the audited financial statements.

### **2006 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased .1%, or approximately \$10,000, from fiscal year 2005 to fiscal year 2006. Property tax increased approximately \$36,000.
- Disbursements increased 30.62%, or approximately \$1,322,000, from fiscal 2005 to fiscal year 2006. Significant increases were seen in public safety, community and economic development, capital projects and debt service in the amounts of \$275,000, \$512,000, \$575,000 and \$153,000, respectively, while general government disbursements decreased approximately \$218,000.
- The City's total cash basis net assets decreased 14.8%, or approximately \$1,437,000, from June 30, 2005, to June 30, 2006. Of this amount, the assets of the governmental activities increased approximately \$233,000, and the assets of the business type activities decreased approximately \$1,671,000.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term, as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

### **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water department, stormwater, and wastewater treatment utilities. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment (TIF), 3) the Debt Service



Fund, and 4) the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements, and changes in cash balances.

2) Proprietary Funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and wastewater treatment funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate cost internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements, and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

### **The City as Trustee**

The City is the trustee, or *fiduciary*, for its police employees' pension plans. All of the City's fiduciary activities are reported in a separate Statement of Cash Receipts, Disbursements, and Changes in Cash Balances on page 19. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in this fund are used for its intended purpose.

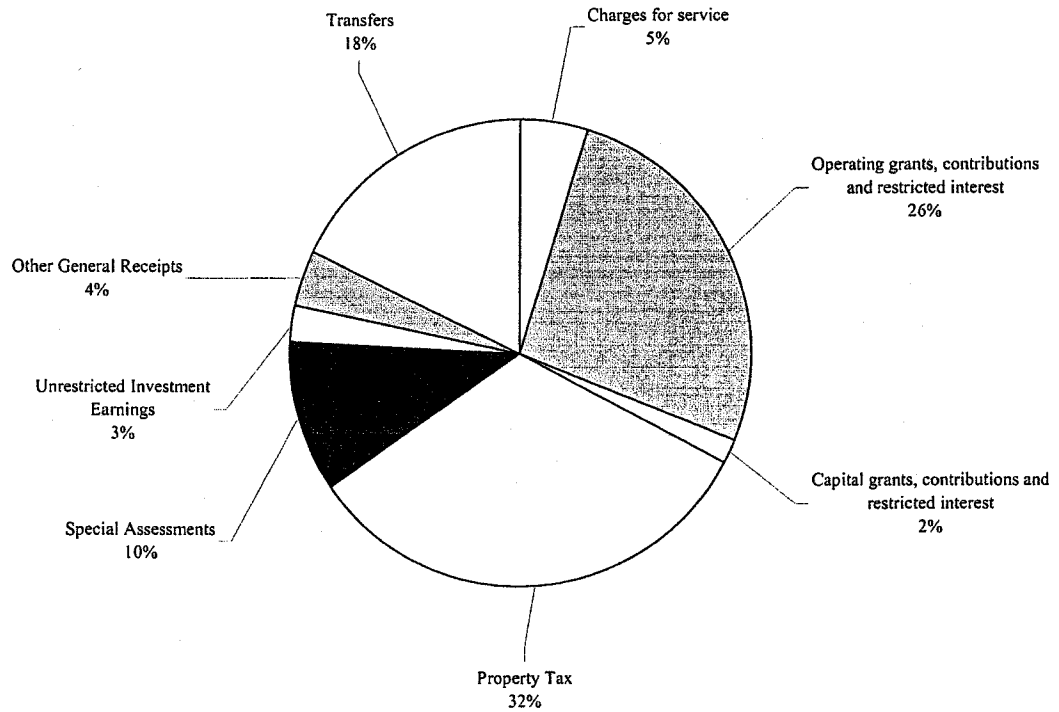
### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$5,717,124 to \$5,950,283. The analysis that follows focuses on the changes in cash balances for governmental activities.

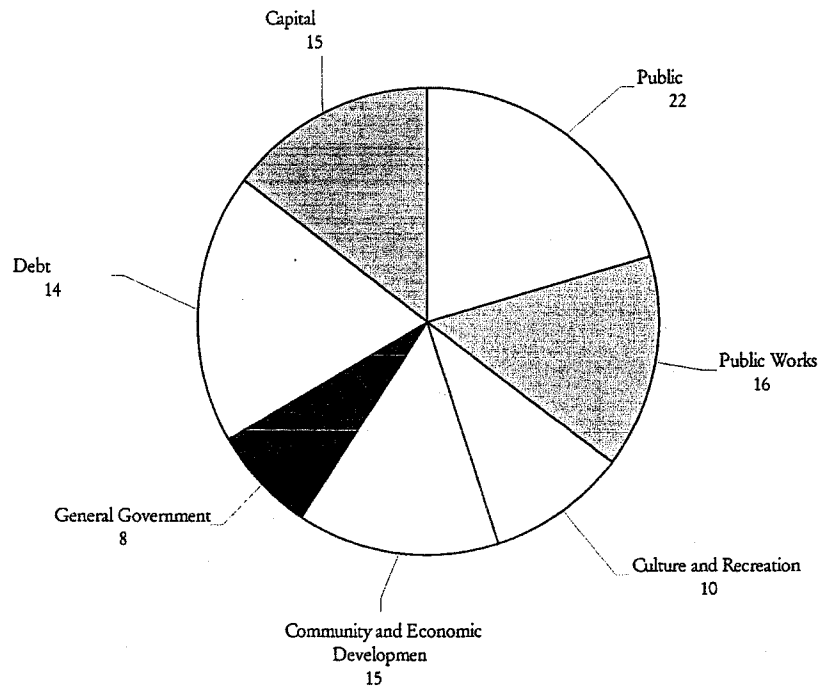
City of Maquoketa  
Changes in Cash Basis Net Assets of Governmental Activities

	Years Ended June 30	
	2006	2005
Receipts and Transfers:		
Program Receipts:		
Charges for Services	\$ 274,581	\$ 330,271
Operating Grants, Contributions and Restricted Interest	1,553,497	981,421
Capital Grants, Contributions and Restricted Interest	101,910	137,208
General Receipts:		
Property Tax	1,911,313	1,875,783
Local Option Sales Tax	374,561	368,180
Franchise Tax	194,064	143,054
Hotel/Motel Tax	45,103	42,900
Unrestricted Investment Earnings	148,414	45,101
Other General Receipts	224,838	601,819
Sale of Assets	3,261	314,925
Transfers, Net	440,612	163,062
Interfund Loans, Net	600,000	(623,952)
Total Receipts and Transfers	<u>\$ 5,872,154</u>	<u>\$ 4,379,772</u>
Disbursements:		
Public Safety	\$ 1,225,602	\$ 946,937
Public Works	891,412	868,511
Culture and Recreation	570,024	572,127
Community and Economic Development	858,424	346,115
General Government	445,749	663,484
Debt Service	814,281	661,767
Capital Projects	833,503	258,254
Total Disbursements	<u>5,638,995</u>	<u>4,317,195</u>
Increase in Cash Basis Net Assets	233,159	62,577
Cash Basis Net Assets, Beginning of Year	<u>5,717,124</u>	<u>5,654,547</u>
Cash Basis Net Assets, End of Year	<u>\$ 5,950,283</u>	<u>\$ 5,717,124</u>

Source by Receipts



Disbursements by Function



The City's receipts and transfers for governmental activities totaled \$5,872,154 for fiscal year 2006, an increase of 34.07% from fiscal year 2005. The total cost of all programs and services was \$5,638,995, an increase of 30.62%. The net excess increased cash balances on hand by \$233,159 for fiscal year 2006 to \$5,950,283.

The cost of all governmental activities this year was \$5,638,995 compared to \$4,317,195 last year. As shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was \$1,911,313 because some of the cost was paid by those directly benefiting from the programs (\$274,581) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$1,655,407). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$1,797,694 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

City of Maquoketa		
Changes in Cash Basis Net Assets of Business Type Activities		
	Years Ended June 30	
	2006	2005
Receipts and Transfers:		
Program Receipts:		
Charges for Service:		
Water	\$ 533,365	\$ 515,877
Wastewater Treatment	1,076,415	920,953
Stormwater	123,637	100,763
Capital Grants, Contributions, and Restricted Interest	476,664	123,336
General Receipts:		
Unrestricted Interest on Investments	11,697	19,321
Bond Proceeds	2,429,971	715,851
Interfund Loans	-----	600,000
Other General Receipts	<u>15,303</u>	<u>3,511</u>
Total Receipts	<u>4,667,052</u>	<u>2,999,612</u>
Disbursements and Transfers:		
Water	3,004,327	1,172,493
Wastewater Treatment	1,482,708	726,280
Stormwater	810,258	1,490
Transfers	440,612	163,062
Interfund Loans	<u>600,000</u>	<u>-----</u>
Total Disbursements and Transfers	<u>6,337,905</u>	<u>2,063,325</u>
Increase (Decrease) in Cash Balance	(1,670,853)	936,287
Cash Basis in Net Assets, Beginning of Year	<u>3,978,535</u>	<u>3,042,248</u>
Cash Basis in Net Assets, End of Year	<u>\$ 2,307,682</u>	<u>\$ 3,978,535</u>

Total business type activities receipts for the fiscal year were \$4,667,052 compared to \$2,999,612 last year. This significant increase was due primarily to the receipt of \$2,429,971 in water revenue note proceeds in fiscal year 2006, with corresponding expenditures for improvements to the water and wastewater treatment facilities, as well as the stormwater project. The cash balance decreased by approximately \$1,670,853 from the prior year. Total disbursements and transfers for the fiscal year increased by 207.17% to a total of \$6,337,905.

### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Maquoketa completed the year, its governmental funds reported a combined fund balance of \$5,950,283, an increase of approximately \$233,000 above last year's total of \$5,717,124. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$88,289 from the prior year to \$2,851,720. For financial statement purposes, the General Fund is comprised of several smaller funds. Most of the increase in the ending cash balance was in the Airport Fund.
- The General Capital Projects Fund accounts for major capital projects incurred and used in conjunction with the City's general operation. At the end of the fiscal year, the cash balance was \$1,211,805, a decrease of \$642,003 from the prior year. During 2006, the City incurred expenses relating to several street overlay projects.
- The Industrial Park Fund was established in a prior fiscal year to account for major capital projects and expansion efforts in the City's Industrial Park. The cash balance at the end of the fiscal year increased to \$1,652,669, primarily due to the repayment of an interfund loan of \$600,000 from the Stormwater Fund.

### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

As the City of Maquoketa completed the year, its business type funds reported a combined fund balance of \$2,307,682, a decrease of approximately \$1,671,000 below last year's total of \$3,978,535. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The Wastewater Treatment cash balance decreased by \$671,581 to \$1,292,909, mostly attributable to increased debt service payments.
- The Stormwater Fund was established in fiscal year 2005 and ended the year with a cash deficit of \$309,374. The fund repaid an interfund loan from the Industrial Park Fund in the amount of \$600,000.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The amendment was approved on May 15, 2006. The City had sufficient cash balances to absorb the additional costs.

## DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$11,689,227 in bonds and other long-term debt, compared to approximately \$10,562,331 last year, as shown below:

City of Maquoketa Outstanding Debt at Year-End		
	June 30,	
	2006	2005
General Obligation Bonds and Notes	\$ 6,420,000	\$ 6,275,000
Revenue Notes and Bonds	5,186,687	4,173,535
Real Estate Contracts	82,540	113,796
Total	<u>\$ 11,689,227</u>	<u>\$ 10,562,331</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$6,420,000 is approximately 58.6% of its constitutional debt limit of \$10,958,615.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Maquoketa's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities.

The fiscal year 2006 budget was based on a City tax rate of \$11.61/\$1,000. Similarly, the fiscal year 2007 budget uses the same tax rate. This rate has been the same for three consecutive years.

While the City was able to balance our fiscal year 2006 budget without an increase in our tax rate, it should be noted that this was possible due to these assumptions:

- As with the fiscal year 2005 budget, the fiscal year 2006 budget assumes the City is using money from the Police Pension Fund to make the City's annual contribution to the police officers' retirement system. For fiscal year 2006, this amount is \$121,570. A few years from now, the Police Pension Fund will be completely exhausted. The only other means for paying for this expense will be to raise property taxes, cut future expenses or a combination of these options.
- The fiscal year 2006 budget included an anticipated \$90,000 from a new 3% natural gas franchise fee due to a renewed franchise for Aquila. However, after the current fiscal year began, the City Council decided to postpone the use of a franchise fee until no sooner than fiscal year 2007.

- The franchise fee payment that the City receives from its municipal electric utility in fiscal year 2006 increased by about \$30,000 from 2005. The budget for the year only estimated a \$20,000 increase.
- The Police Department's budget was based on 11 officers, rather than 12. This was due to the City elimination of the Cop in the School Program.
- As with past budgets, this budget continues the City's use of Road Use Tax revenue to pay for some of the cost of public works labor and equipment, approximately \$120,000 for the fiscal year.
- The proposed budget assumes wage increases of 3%, health insurance increases of 15%, and property insurance increases of 7%.
- A grant in support of the City's role in the regional Bear Creek Task Force was renewed in the amount of \$43,000 for fiscal year 2006. This grant is not available to the City for fiscal year 2007.

Since the fiscal year 2006 budget was adopted, these activities have occurred:

- The Council approved a roof replacement project at the Police Department. This \$17,487 expense was not anticipated in the City's budget.
- The Council approved a roof replacement project at the Community Center. This \$54,354 expense was not anticipated in the City's budget.
- The fiscal year 2006 budget did not anticipate the significant increases that the nation has endured in the cost of fuel and energy.

The fiscal year 2006 saw the resolution of these projects:

- The construction of new restrooms at the girl's softball fields. The project's final cost was about \$97,000.
- A \$4 million water treatment/storm sewer project was completed in May 2006. The primary project was to reduce the amount of radium that was present in the City's drinking water. The storm water component of the project cost approximately \$502,000 and relieved excess storm water during moderate to heavy rains on Niagara Street, North 2<sup>nd</sup> Street, Apple Street, and West Grove Street. These streets, along with previous water treatment project segments involving Summit Street, South 2<sup>nd</sup> Street, West Pleasant Street, and South Niagara Street, were overlaid.

Projects in the upcoming fiscal years will include:

- Street overlay project on Thomas Avenue at a cost approximating \$149,000. (fiscal year 2007)

- An airport runway overlay project, which has an estimated cost of approximately \$1,036,262. Of this amount, federal funds will cover 95% of the costs while the City will match 5%, which approximates \$53,000. (fiscal year 2007)
- There is discussion of an 8,000 square foot addition to the fire station, which may be offered as a ballot question to the voters. The project is estimated to cost \$1.5 million. If pursued, the project bidding and a public vote on general obligation financing will be done in fiscal year 2007, with completion of the construction in fiscal year 2008.
- Reconstruction of Western Avenue, which is estimated to cost approximately \$788,000. The project will be financed with DOT funds, which require a match of 20% from the City, which approximates \$183,000. The City will also pay for water and sanitary sewer main upgrades as part of the project. (fiscal year 2008)
- Construction of the City's new Area Recreation Center (ARC) will occur in fiscal year 2007, with the opening anticipated for November 2007. The ARC will be managed by the Scott County Family YMCA and costs for construction, architecture and furnishing of the building are expected to exceed \$5.2 million.
- Overlay project on South Jones Street (cost yet to be determined). (fiscal year 2008)

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brian Wagner, City Manager, 201 East Pleasant, Maquoketa, Iowa.



**City of Maquoketa**  
**Statement of Activities and Net Assets - Cash Basis**  
**As of and for the Year Ended June 30, 2006**

			Program Receipts	
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
<b>Functions / Programs:</b>				
<b>Primary Government:</b>				
Governmental Activities:				
Public Safety	\$ 1,225,602	\$ 3,840	\$ 266,873	\$ -
Public Works	891,412	102,204	643,910	-
Culture and Recreation	570,024	54,327	25,892	-
Community and Economic Development	858,424	31	285,350	-
General Government	445,749	114,179	316,472	-
Debt Service	814,281	-	-	-
Capital Projects	833,503	-	15,000	101,910
Total Governmental Activities	<u>5,638,995</u>	<u>274,581</u>	<u>1,553,497</u>	<u>101,910</u>
Business Type Activities:				
Water Utility	3,004,327	533,365	-	-
Wastewater Treatment	1,482,708	1,076,415	-	476,664
Stormwater	810,258	123,637	-	-
Total Business Type Activities	<u>5,297,293</u>	<u>1,733,417</u>	<u>-</u>	<u>476,664</u>
<b>Total Primary Government</b>	<u>\$ 10,936,288</u>	<u>\$ 2,007,998</u>	<u>\$ 1,553,497</u>	<u>\$ 578,574</u>
<b>Component Unit:</b>				
Maquoketa Municipal Electric Utility	<u>\$ 6,757,260</u>	<u>\$ 6,982,081</u>	<u>\$ -</u>	<u>\$ -</u>
<b>General Receipts:</b>				
Property Tax Levied for:				
General Purposes				
Insurance				
Employee Benefits				
Tax Increment Financing				
Local Option Sales Tax				
Hotel/Motel Tax				
Licenses, Permits, and Franchise Fees				
Franchise Tax				
Unrestricted Interest on Investments				
Bond Proceeds				
Miscellaneous				
Sale of Assets				
Interfund Loans				
Transfers In (Out)				
Total General Receipts and Transfers				
Change in Cash Basis Net Assets				
Cash Basis Net Assets, Beginning of Year				
Cash Basis Net Assets, End of Year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Streets				
Urban Renewal Purposes				
Debt Service				
Other Purposes				
Unrestricted				
Total Cash Basis Net Assets				

Exhibit A

Net (Disbursements) Receipts and  
Change in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total	Component Unit
\$ (954,889)	\$ -	\$ (954,889)	\$ -
(145,298)	-	(145,298)	-
(489,805)	-	(489,805)	-
(573,043)	-	(573,043)	-
(15,098)	-	(15,098)	-
(814,281)	-	(814,281)	-
(716,593)	-	(716,593)	-
<u>(3,709,007)</u>	<u>-</u>	<u>(3,709,007)</u>	<u>-</u>
-	(2,470,962)	(2,470,962)	-
-	70,371	70,371	-
-	(686,621)	(686,621)	-
<u>-</u>	<u>(3,087,212)</u>	<u>(3,087,212)</u>	<u>-</u>
<u>(3,709,007)</u>	<u>(3,087,212)</u>	<u>(6,796,219)</u>	<u>-</u>
-	-	-	224,821
1,076,878	-	1,076,878	-
68,910	-	68,910	-
380,102	-	380,102	-
385,423	-	385,423	-
374,561	-	374,561	-
45,103	-	45,103	-
9,456	-	9,456	-
194,064	-	194,064	-
148,414	11,697	160,111	89,787
-	2,429,971	2,429,971	-
215,382	15,303	230,685	215,453
3,261	-	3,261	-
600,000	(600,000)	-	-
440,612	(440,612)	-	-
<u>3,942,166</u>	<u>1,416,359</u>	<u>5,358,525</u>	<u>305,240</u>
233,159	(1,670,853)	(1,437,694)	530,061
5,717,124	3,978,535	9,695,659	3,331,792
<u>\$ 5,950,283</u>	<u>\$ 2,307,682</u>	<u>\$ 8,257,965</u>	<u>\$ 3,861,853</u>
\$ 424,938	\$ -	\$ 424,938	\$ -
(452,362)	-	(452,362)	-
(48,324)	279,691	231,367	-
2,982,289	-	2,982,289	-
3,043,742	2,027,991	5,071,733	3,861,853
<u>\$ 5,950,283</u>	<u>\$ 2,307,682</u>	<u>\$ 8,257,965</u>	<u>\$ 3,861,853</u>

See Notes to Financial Statements

**City of Maquoketa**  
**Statement of Cash Receipts, Disbursements, and Changes in Cash Balances**  
**Governmental Funds**  
**As of and For the Year Ended June 30, 2006**

	General	Special Revenue Road Use Tax
<b>Receipts:</b>		
Property Tax	\$ 1,190,891	\$ -
Tax Increment Financing Collections	-	-
Other City Tax	194,064	-
Licenses and Permits	9,456	-
Use of Money and Property	168,287	-
Intergovernmental	639,507	511,922
Charges for Service	162,455	-
Miscellaneous	243,944	-
Total Receipts	<u>2,608,604</u>	<u>511,922</u>
<b>Disbursements:</b>		
Operating:		
Public Safety	1,057,914	-
Public Works	621,737	185,252
Culture and Recreation	524,712	-
Community and Economic Development	82,244	-
General Government	392,279	-
Debt Service	-	-
Capital Projects	-	-
Total Disbursements	<u>2,678,886</u>	<u>185,252</u>
Excess (Deficiency) of Receipts over (under) Disbursements	<u>(70,282)</u>	<u>326,670</u>
<b>Other Financing Sources (Uses)</b>		
Sale of Capital Assets	3,261	-
Interfund Loans	-	-
Operating Transfers In	397,076	-
Operating Transfers Out	(241,766)	(372,372)
Total Other Financing Sources (Uses)	<u>158,571</u>	<u>(372,372)</u>
Net Change in Cash Balances	88,289	(45,702)
Cash Balances, Beginning of Year	2,763,431	470,640
Cash Balances, End of Year	<u>\$ 2,851,720</u>	<u>\$ 424,938</u>
<b>Cash Basis Fund Balances</b>		
Reserved:		
Debt Service	\$ -	\$ -
Unreserved:		
General Fund	2,851,720	-
Special Revenue Funds	-	424,938
Capital Project Funds	-	-
Total Cash Basis Fund Balances	<u>\$ 2,851,720</u>	<u>\$ 424,938</u>

# Exhibit B

Capital Projects		Debt Service	Other Nonmajor Governmental Funds	Total
General	Industrial Park			
\$ -	\$ -	\$ -	\$ 380,102	\$ 1,570,993
-	-	-	385,423	385,423
-	-	-	374,561	568,625
-	-	-	-	9,456
7,017	14,187	-	900	190,391
-	116,910	-	89,125	1,357,464
-	-	-	-	162,455
-	530	-	289,147	533,621
<u>7,017</u>	<u>131,627</u>	<u>-</u>	<u>1,519,258</u>	<u>4,778,428</u>
-	-	-	97,000	1,154,914
-	-	-	33,024	840,013
-	-	-	12,442	537,154
-	-	-	726,668	808,912
-	112	-	27,648	420,039
-	-	814,281	-	814,281
818,048	-	-	15,455	833,503
<u>818,048</u>	<u>112</u>	<u>814,281</u>	<u>912,237</u>	<u>5,408,816</u>
<u>(811,031)</u>	<u>131,515</u>	<u>(814,281)</u>	<u>607,021</u>	<u>(630,388)</u>
-	-	-	-	3,261
-	600,000	-	-	600,000
523,060	-	830,399	374,512	2,125,047
(354,032)	(150,628)	-	(760,454)	(1,879,252)
<u>169,028</u>	<u>449,372</u>	<u>830,399</u>	<u>(385,942)</u>	<u>849,056</u>
(642,003)	580,887	16,118	221,079	218,668
<u>1,853,808</u>	<u>1,071,782</u>	<u>(64,442)</u>	<u>(555,626)</u>	<u>5,539,593</u>
<u>\$ 1,211,805</u>	<u>\$ 1,652,669</u>	<u>\$ (48,324)</u>	<u>\$ (334,547)</u>	<u>\$ 5,758,261</u>
\$ -	\$ -	\$ (48,324)	\$ -	\$ (48,324)
-	-	-	-	2,851,720
-	-	-	(368,635)	56,303
<u>1,211,805</u>	<u>1,652,669</u>	<u>-</u>	<u>34,088</u>	<u>2,898,562</u>
<u>\$ 1,211,805</u>	<u>\$ 1,652,669</u>	<u>\$ (48,324)</u>	<u>\$ (334,547)</u>	<u>\$ 5,758,261</u>

See Notes to Financial Statements

**City of Maquoketa**  
**Reconciliation of the Statement of Cash Receipts, Disbursements,**  
**and Changes in Cash Balances to the Statement of Activities**  
**and Net Assets - Governmental Funds**  
**As of and for the Year Ended June 30, 2006**

Total Governmental Funds Cash Balance (page 15) \$ 5,758,261

*Amounts Reported for Governmental Activities in the  
Statement of Activities and Net Assets are different because:*

The Internal Service Funds are used by management to charge the costs of partial self-funding of the City's health insurance benefit plan and payroll costs to individual funds. The assets of the Internal Service Funds are included in the governmental activities in the Statement of Net Assets.

	192,022
Cash Basis Net Assets of Governmental Activities (page 14)	\$ 5,950,283

Net Change in Cash Balances (page 15) \$ 218,668

*Amounts Reported for Governmental Activities in the  
Statement of Activities and Net Assets are different because:*

The Internal Service Funds are used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Funds is reported with governmental activities.

	14,491
Change in Cash Balance of Governmental Activities (page 14)	\$ 233,159

**City of Maquoketa**  
**Statement of Cash Receipts, Disbursements, and Changes in**  
**Cash Balances - Proprietary Funds**  
**As of and for the Year Ended June 30, 2006**

	Enterprise Funds	
	Water Utility	Wastewater Treatment
<b>Operating Receipts:</b>		
Use of Money and Property	\$ 6,298	\$ 5,399
Charges for Service	698,979	905,289
Miscellaneous	-	5,512
Total Operating Receipts	<u>705,277</u>	<u>916,200</u>
<b>Operating Disbursements:</b>		
Governmental Activities:		
Public Safety	-	-
Public Works	-	-
Culture and Recreation	-	-
Community and Economic Development	-	-
General Government	-	-
Business Type Activities	3,004,327	1,482,708
Total Operating Disbursements	<u>3,004,327</u>	<u>1,482,708</u>
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	<u>(2,299,050)</u>	<u>(566,508)</u>
<b>Non-Operating Receipts (Disbursements):</b>		
Intergovernmental	476,664	-
Miscellaneous	15,303	-
General Obligation Bond Proceeds	1,921,152	-
Total Non-Operating Receipts (Disbursements)	<u>2,413,119</u>	<u>-</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>114,069</u>	<u>(566,508)</u>
<b>Other Financing Sources (Uses)</b>		
Interfund Loans	-	-
Operating Transfers In	-	91,951
Operating Transfers Out	(104,694)	(197,024)
Total Other Financing Sources (Uses)	<u>(104,694)</u>	<u>(105,073)</u>
Net Change in Cash Balances	9,375	(671,581)
Cash Balances Beginning of Year	1,314,772	1,964,490
Cash Balances End of Year	<u>\$ 1,324,147</u>	<u>\$ 1,292,909</u>
<b>Cash Basis Fund Balances</b>		
Reserved for Debt Service	\$ -	\$ 279,691
Unreserved	1,324,147	1,013,218
Total Cash Basis Fund Balance	<u>\$ 1,324,147</u>	<u>\$ 1,292,909</u>

Enterprise Funds		Internal Service Fund
Storm Water	Total	Employee Health
\$ -	\$ 11,697	\$ 540
123,637	1,727,905	28,690
-	5,512	20,623
<u>123,637</u>	<u>1,745,114</u>	<u>49,853</u>
-	-	70,688
-	-	51,399
-	-	32,870
-	-	49,512
-	-	25,710
810,258	5,297,293	-
<u>810,258</u>	<u>5,297,293</u>	<u>230,179</u>
<u>(686,621)</u>	<u>(3,552,179)</u>	<u>(180,326)</u>
-	476,664	-
-	15,303	-
508,819	2,429,971	-
<u>508,819</u>	<u>2,921,938</u>	<u>-</u>
<u>(177,802)</u>	<u>(630,241)</u>	<u>(180,326)</u>
(600,000)	(600,000)	-
-	91,951	194,817
<u>(230,845)</u>	<u>(532,563)</u>	<u>-</u>
(830,845)	(1,040,612)	194,817
(1,008,647)	(1,670,853)	14,491
699,273	3,978,535	177,531
<u>\$ (309,374)</u>	<u>\$ 2,307,682</u>	<u>\$ 192,022</u>
\$ -	\$ 279,691	\$ -
<u>(309,374)</u>	<u>2,027,991</u>	<u>192,022</u>
<u>\$ (309,374)</u>	<u>\$ 2,307,682</u>	<u>\$ 192,022</u>

See Notes to Financial Statements

**City of Maquoketa**  
**Reconciliation of the Statement of Cash Receipts, Disbursements,**  
**and Changes in Cash Balances to the Statement of Activities**  
**and Net Assets - Proprietary Funds**  
**As of and for the Year Ended June 30, 2006**

Total Enterprise Funds Cash Balance (page 17)	\$	2,307,682
---	----	-----------

*Amounts Reported for Business Type Activities in the  
Statement of Activities and Net Assets are different because:*

None

Cash Basis Net Assets of Business Type Activities (page 14)	\$	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 0 10px;">2,307,682</div>
---	----	--

Net Change in Cash Balances (page 17)	\$	(1,670,853)
---------------------------------------	----	-------------

*Amounts Reported for Business Type Activities in the  
Statement of Activities and Net Assets are different because:*

None

Change in Cash Balance of Business Type Activities (page 14)	\$	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 0 10px;">(1,670,853)</div>
--	----	--



**City of Maquoketa**  
**Statement of Cash Receipts, Disbursements, and Changes**  
**in Cash Balances**  
**Fiduciary Funds**  
**As of and for the Year Ended June 30, 2006**

	<u>Police Retirement System</u>
<b>Additions:</b>	
Contributions:	
Plan Members	\$ 38,713
Total Contributions	<u>38,713</u>
Investment Earnings:	
Net Increase in Fair Value of Investments	40,927
Interest	<u>18,437</u>
Total Investment Earnings	<u>59,364</u>
Total Additions	<u>98,077</u>
<b>Deductions:</b>	
Benefits	<u>159,974</u>
Total Deductions	<u>159,974</u>
<b>Other Financing Sources (Uses):</b>	
Interfund Loan	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>
Net Change in Cash Balances	(61,897)
Cash Balances - Beginning of the Year	<u>746,230</u>
Cash Balances- End of the Year	<u><u>\$ 684,333</u></u>

# City of Maquoketa

## Notes to Financial Statements

### **NOTE 1. Nature of Organization and Significant Accounting Policies**

The City of Maquoketa is a political subdivision of the State of Iowa located in Jackson County. It was first incorporated in 1837 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government, with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements, and general administrative services. The City also provides water and sewer utilities for its citizens.

The significant accounting policies of the City of Maquoketa are as follows:

#### **Reporting Entity**

For financial reporting purposes, the City of Maquoketa has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Maquoketa (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately, and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

#### **Discretely Presented Component Unit**

The Maquoketa Municipal Electric Utility is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a five-member board appointed by the City Council, and the Utility's operating budget is subject to the approval of the City Council. The utility has a December 31 year-end.

# City of Maquoketa

## Notes to Financial Statements

### NOTE 1. Nature of Organization and Significant Accounting Policies (Continued)

#### Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions:

Civil Service Commission  
Jackson County Landfill Board  
Jackson County E911 Board

#### Basis of Presentation

**Government-Wide Financial Statements** – The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely, to a significant extent, on fees and charges for services.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in two categories:

*Restricted Net Assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted Net Assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

# City of Maquoketa

## Notes to Financial Statements

### NOTE 1. Nature of Organization and Significant Accounting Policies (Continued)

#### Basis of Presentation (Continued)

**Fund Financial Statements** – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

#### Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

#### Capital Projects:

The Industrial Park Fund is used to account for resources used in the acquisition or construction of major capital facilities and capital assets in the City's industrial park area.

The General (CIP) Fund is used to account for resources used in the acquisition or construction of major capital facilities and capital assets used in the City's general operations.

The Debt Service Fund accounts for the payment of interest and principal on the City's general long-term debt except when authorized or required to be paid from other funds.

The City reports the following major proprietary funds:

The Water Utility Fund accounts for the operation and maintenance of the City's water system.

The Waste Water Treatment Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Stormwater Fund accounts for the operation and maintenance of the City's stormwater system.

# City of Maquoketa

## Notes to Financial Statements

### NOTE 1. Nature of Organization and Significant Accounting Policies (Continued)

#### Basis of Presentation (Continued)

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

The City also reports fiduciary funds which focus on net assets and changes in net assets. The City's fiduciary funds include the following:

The Police Retirement System Fund is used to account for assets of the police pension plan held by the City in a trustee capacity.

#### Measurement Focus and Basis of Accounting

The City of Maquoketa maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

# City of Maquoketa

## Notes to Financial Statements

### NOTE 1. Nature of Organization and Significant Accounting Policies (Continued)

#### Basis of Presentation (Continued)

##### Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the general government function.

### NOTE 2. Cash and Pooled Investments

The City's deposits in banks at June 30, 2006, were entirely covered by Federal Depository Insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities, certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council, prime eligible bankers acceptances, certain high-rated commercial paper, perfected repurchase agreements, certain registered open-end management investment companies, certain joint investment trusts, and warrants or improvement certificates of a drainage district.

At June 30, 2006, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Mutual Funds	\$ 709,021	\$ 712,473	-----
Stocks	363,884	353,310	-----
Corporate Bonds:			
General Electric Cap. Corp.	25,000	24,056	5/9/2018
Lehman Bros Coml Bk Salt	10,000	9,756	10/28/2009
R-G Crown Bank CD Semi	14,000	13,572	8/19/2009
General Motors Accept Corp Medium Term Notes	75,000	67,328	11/15/2008
Westernbank PR Mayaguez	60,000	56,969	1/20/2010
Principal Life Corenotes	40,000	37,338	11/17/2014
JP Morgan Chase Cap XI	37,589	34,576	6/15/2033
PNC Capital Trust D	37,500	33,150	12/15/2033

# City of Maquoketa

## Notes to Financial Statements

### NOTE 2. Cash and Pooled Investments (Continued)

Type	Carrying Amount	Fair Value	Maturity
Goldman Sachs Group, Inc. Note	25,000	24,563	8/1/2022
John Hancock Life Insurance Co. Signature Notes	50,000	45,875	10/15/2028
U.S. Government Bonds:			
Federal Home Ln Bks Deb 5.62%	25,000	23,914	8/6/2018
Federal Home Ln Bks Deb 5.55%	50,000	46,797	6/22/2020
FHLM Corp. 4.00%	24,500	23,071	7/16/2018
Federal Home Ln Mtg Corp Mtnf 5.00%	14,848	14,203	8/15/2015
Federal Home Ln Mtg Corp Step Bd 3.25%	6,860	6,794	10/22/2015
Federal Natl Mtg Assn Mtn Deb 5.00%	40,000	38,412	1/21/2020
Federal Natl Mtg Assn Mtn Deb 5.00%	40,000	37,762	4/8/2019
Federal Natl Mtg Assn Mtn Deb 6.75%	10,000	9,975	5/17/2021
Federal Home Ln Bks Deb 6.00%	10,000	9,850	2/26/2016
Federal Home Ln Mtg Corp	19,856	19,238	2/27/2009
Federal Natl Mtg Assn Investment Notes B/E	44,827	43,101	9/12/2013
FHLMC Remic 2854-EE	25,000	23,475	9/15/2034
GNMA Pool #493023 6.00%	7,785	7,829	11/15/2013

Certain investments included above that are held by the Police Retirement System Fund (Fiduciary fund) in the amount of \$671,368 are reported at fair value in the financial statements because the original cost of these investments is unknown.

### NOTE 3. Bond and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds, revenue bonds, and notes payable are as follows:

Year Ending June 30	General Obligation Capital Loan Notes		Real Estate Contracts		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 160,000	\$ 97,523	\$ 18,380	\$ 4,538	\$ 101,000	\$ 14,081
2008	155,000	87,390	18,380	3,545	103,000	10,304
2008	220,000	81,935	18,380	2,536	107,000	6,377
2010	185,000	74,265	13,700	1,534	111,000	2,300
2011	430,000	67,705	13,700	767	6,000	113
2012	405,000	52,610	----	----	----	----
2013	420,000	37,985	----	----	----	----
2014	415,000	22,400	----	----	----	----
2015	170,000	6,630	----	----	----	----
<b>TOTALS</b>	<b>\$ 2,560,000</b>	<b>\$ 528,443</b>	<b>\$ 82,540</b>	<b>\$ 12,920</b>	<b>\$ 428,000</b>	<b>\$ 33,175</b>

# City of Maquoketa

## Notes to Financial Statements

### NOTE 3. Bond and Notes Payable (Continued)

Year Ending June 30	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 265,000	\$ 309,161	\$ 158,000	\$ 142,200	\$ 702,380	\$ 567,503
2008	240,000	289,323	163,000	137,385	679,380	527,946
2009	210,000	218,980	168,000	132,420	723,380	442,248
2010	220,000	209,045	173,000	127,305	702,700	414,449
2011	90,000	155,165	178,000	122,040	717,700	345,789
2012	95,000	151,250	184,000	116,610	684,000	320,470
2013	95,000	146,975	189,000	111,015	704,000	295,975
2014	100,000	142,605	194,000	105,270	709,000	270,275
2015	775,000	137,905	201,000	99,345	1,146,000	243,880
2016	760,000	96,690	206,000	93,240	966,000	189,930
2017	810,000	55,650	330,000	85,200	1,140,000	140,850
2018	200,000	11,100	340,000	75,150	540,000	86,250
2019	----	----	351,000	64,785	351,000	64,785
2020	----	----	360,000	54,120	360,000	54,120
2021	----	----	372,000	43,140	372,000	43,140
2022	----	----	383,000	31,815	383,000	31,815
2023	----	----	335,687	20,160	335,687	20,160
2024	----	----	154,000	11,940	154,000	11,940
2025	----	----	158,000	7,260	158,000	7,260
2026	----	----	161,000	2,445	161,000	2,445
<b>TOTALS</b>	<b>\$ 3,860,000</b>	<b>\$ 1,923,849</b>	<b>\$ 4,758,687</b>	<b>\$ 1,582,845</b>	<b>\$ 11,689,227</b>	<b>\$ 4,081,230</b>

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City; however, the debt is subject to the constitutional debt limit of the City.

The resolutions providing for the issuance of the sewer revenue note and the sewer revenue bonds – DNR revolving loan include the following provisions:

- (a) The bonds and notes will only be redeemed from the future earnings of the enterprise activity and the bond and note holders hold a lien on the future earnings of the funds.



# City of Maquoketa

## Notes to Financial Statements

### NOTE 3. Bond and Notes Payable (Continued)

- (b) Gross revenues of the sewer utility shall be set aside into a sewer revenue account. This account shall be used in maintaining and operating the sewer utility and, after payment of operating expenses, shall be used to pay the principal and interest on the bonds. This account is also used to maintain the several separate accounts required to be set up by the bond resolutions.
- (c) Sufficient monthly transfers shall be made to a sewer revenue bonds sinking account for the purpose of making the bond principal and interest payments when the sewer revenue account does not have the funds available. The monthly amount required for the sewer revenue bonds sinking account shall not be less than one-sixth of the upcoming interest payment plus one-twelfth of the upcoming principal payment.
- (d) Monthly transfers shall be made to a sewer revenue bond reserve account of an amount equal to that deposited into the sewer revenue bond sinking account until a specific minimum balance has been accumulated. Any additional amounts over the required sewer revenue bond reserve minimum balance should be deposited into the sewer revenue account. The sewer revenue bond reserve account is restricted for the purpose of paying the principal and interest on the notes and bonds when insufficient money is available in the respective sinking accounts.
- (e) All net revenues remaining from the sewer utility after first making the required payments into the sewer sinking account and the sewer reserve account, and after the sewer reserve account contains the required reserve fund balance, shall be transferred to the sewer surplus account. All monies credited to the surplus account shall be transferred and credited to the sinking account or reserve account whenever a deficiency may exist. If both the sinking account and the reserve account have the full amounts required to be deposited, any balance in the surplus account may be available to the City for operation of the sewer utility.

### NOTE 4. Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement Systems (IPERS) which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

# City of Maquoketa

## Notes to Financial Statements

### NOTE 4. Pension and Retirement Benefits (Continued)

Plan members are required to contribute 3.7% of their annual salary, and the City is required to contribute 5.75% of covered salary, except for police employees, in which case the percentages are 6.04% and 9.05%, respectively. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004, were \$45,133, \$42,294, and \$42,133, respectively, equal to the required contributions for each year.

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability, and death benefits which are established by State statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104<sup>th</sup> Street, Urbandale, Iowa 50322.

Plan members are required to contribute 9.35% of their earnable compensation, and the City's contribution rate, based on an actuarially determined normal contribution rate, can not be less than 17% of earnable compensation. Contribution requirements are established by State statute. The City's contribution to the Plan for the years ended June 30, 2006, 2005, and 2004, were \$122,058, \$106,369, and \$92,891, respectively, which met the required minimum contribution for each year.

### NOTE 5. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, sick leave, and holiday hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 54,438
Sick Leave	<u>41,847</u>
Total	<u>\$ 96,285</u>

# City of Maquoketa

## Notes to Financial Statements

### NOTE 5. Compensated Absences (Continued)

Sick leave is accumulated and paid out upon separation from the City's employment only to employees hired before July 1, 1990. If sick leave is paid upon termination, retirement, or death, the total accumulated hours are paid at one-half of the then effective hourly rate for that employee. This liability has been computed based on rates of pay as of June 30, 2006.

### NOTE 6. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006, is as follows:

Transfer To:	Transfer From:	Amount
General	Special Revenue:	
	Jackson County Task Force	\$ 47,811
	Road Use Tax	19,367
	Local Option Tax	282,610
	Enterprise:	
	Water Utility	28,944
	Wastewater Utility	18,344
		<u>\$ 397,076</u>
Special Revenue:		
Urban Renewal Tax Increment	Capital Projects:	
	General (CIP)	<u>\$ 354,032</u>
Capital Projects:		
Airport (CIP)	General	<u>\$ 13,000</u>
Library (CIP)	General	<u>\$ 7,480</u>
General (CIP)	General	203,085
	Special Revenue:	
	Road Use Tax	<u>319,975</u>
		<u>\$ 523,060</u>

# City of Maquoketa

## Notes to Financial Statements

### NOTE 6. Interfund Transfers (Continued)

Transfer To:	Transfer From:	Amount
Debt Service	General	\$ 5,240
	Special Revenue:	
	Road Use Tax	33,030
	Urban Renewal Tax Increment	156,226
	Capital Projects:	
	Industrial Park	150,628
	Enterprise:	
	Water Utility	75,750
	Wastewater Utility	178,680
	Storm Water	<u>230,845</u>
		<u>\$ 830,399</u>
Enterprise:		
Wastewater Utility	Special Revenue:	
	Local Option Tax	<u>\$ 91,951</u>
Internal Service Fund:		
Employee Health	General	\$ 12,961
	Special Revenue:	
	Employee Benefits	<u>181,856</u>
		<u>\$ 194,817</u>
		<u>\$ 2,411,815</u>
	TOTAL	

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

### NOTE 7. Related Party Transactions

The City had business transactions between the City and City officials, totaling \$83,693 during the year ended June 30, 2006.

# **City of Maquoketa**

## **Notes to Financial Statements**

### **NOTE 8. Risk Management**

The City of Maquoketa, Iowa, is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Health benefits were fully insured through Blue Cross/Blue Shield, with the exception that the City pays a percent of each participant's deductible and co-insurance, which is set forth in the plan documents.

### **NOTE 9. Deficit Fund Balance**

The Urban Renewal Tax Increment, Housing Assistance Program, Employee Benefits, Jackson County Task Force, Storm Water, and Debt Service funds had deficit fund balance amounts of \$452,362, \$30,740, \$64,087, \$7,457, \$309,374, and \$48,324, respectively, at June 30, 2006. The City will be receiving grant money, donations, and transfer funds to eliminate these deficit fund balances.

### **NOTE 10. Construction in Progress**

The City has entered into various construction contracts totaling approximately \$10,983,649. The unpaid contract balances as of June 30, 2006, totaled approximately \$6,055,244, which will be paid as work on the projects progress.

### **NOTE 11. Interfund Loans**

During the year ended June 30, 2005, the Capital Projects, Industrial Park Fund loaned \$600,000 to the Enterprises, Stormwater Fund to finance project costs. The loan bears no interest and will be repaid at a date not later than the later of eighteen months after the capital expenditures are paid or eighteen months after the property is placed in service. This loan was fully repaid during the year ending June 30, 2006.

# **City of Maquoketa**

## **Notes to Financial Statements**

### **NOTE 12. Economic Development Loan**

The City has granted a corporation a ten-year \$200,000 forgivable loan to promote and assist economic growth through the development and expansion of qualified businesses, the creation of jobs, and expansion of the municipal tax base. The loan will be considered fully forgiven provided that the job performance target (500) and the project investment target (\$50,000,000) are met by the contract end date, which shall be ten years from the disbursement of the loan funds. The loan funds were disbursed on December 1, 2000. Any shortfalls to the agreement will become immediately due and payable, and shall bear an interest rate of 6% per annum. The loan is secured by a guaranty from Family Dollar Stores, Inc.

### **NOTE 13. Notes Receivable**

In order to assist property owners of Maquoketa with the cost of replacing their Orangeburg tile, a material not considered suitable in a current water/sewer project, the City is offering to pay the initial cost of the replacement to a qualified contractor/plumber. The City will then allow property owners to repay the City, on a monthly basis, over the course of two years at a zero percent interest rate. As of June 30, 2006, the City had signed agreements with property owners for an estimated cost of \$20,430. Final note receivable balances will be based on the actual charges for the work when it is done.

### **NOTE 14. Development Agreements**

The City has entered into various development agreements for urban renewal projects. The agreements require the City to rebate portions of the incremental tax paid by the developer in exchange for the construction of buildings and certain infrastructure improvements by the developers. Certain agreements also require the developer to certify specific employment requirements are met. Obligations under the agreement are subject to annual appropriation by the City Council. The total paid by the City under the agreements during the year ended June 30, 2006, was \$92,979.

The City's obligation under these agreements for the fiscal year 2007 will not exceed \$127,592.

These agreements are not a general obligation of the City. However, the amount payable in the succeeding year is subject to the constitution debt limitation of the City.

# **City of Maquoketa**

## **Notes to Financial Statements**

### **NOTE 15. Litigation and Subsequent Events**

The City is subject to a pending litigation claim seeking monetary damages. The matter has been referred to the City's insurance carrier for review of potential liability. Subsequent to year end, the case went to court but was thrown out. Although it has not been done as of the report date, the City understands that the other party could potentially bring the case to the Supreme Court.

Subsequent to year end, the City, by way of the Maquoketa Municipal Electric Utility, was named in a lawsuit seeking monetary damages relating to the unauthorized use of Central Iowa Power Cooperative's electrical transmission system. The matter has been referred to the City's insurance carrier for review of any potential liability. The City intends to vigorously defend this action and no provisions have been made in the financial statements related to this claim.

Also subsequent to year end, the City received a letter from a contractor's attorney, regarding an ongoing dispute over damage to City equipment at the water treatment plant. The City is in negotiations with the contractor, and subsequent to year end, resolved the dispute without litigation.

### **NOTE 16. Lease Agreements and Subsequent Event**

1. The City is a party to several operating leases. The leases are with various local companies and individuals for hangars at the municipal airport. The leases are on a month-to-month basis. The City charges \$80 per month, per hangar, and requires a minimum of \$25 in fuel purchases per month. If sufficient fuel purchases are not made, the tenants are still required to pay \$25.
2. The City is a party to an operating lease for the corporate hangar at the municipal airport. The lease runs from January 1, 2005, through June 30, 2006, and requires rental payments of \$230 per month. The tenant is to pay all separately metered utilities, as well as \$20 per month to the City for heating and maintenance for the lobby and public restrooms. The lease contains an automatic three year renewal, unless written notice is given by the City to the tenant within 90 days prior to the expiration of the lease term. The City gave no notice to the tenant as of June 30, 2006, and the lease was extended through June 30, 2009.

# City of Maquoketa

## Notes to Financial Statements

### NOTE 17. Subsequent Events

Subsequent to year-end, the City has entered into construction contracts totaling \$134,769 for various projects.

### NOTE 18. General Fund Cash Balance

The June 30, 2006 ending cash balance (the balance carried at financial institutions, reconciled for deposits in transit and outstanding checks) for the General Fund was \$2,851,720, as reflected on Exhibit B. Several funds comprise this balance, some of which may not be used for operations, and are as follows:

<u>Fund Name</u>		<u>Balance</u>
General	001	\$ 1,144,842
Rehab	014	11,500
Insurance Reserve	019	166,742
Library	031	15,320
Library Corporation	032	1,587,393
Historic Preservation	067	4,689
Historic Preservation	069	7,146
Airport	660	<u>(85,912)</u>
TOTAL		<u>\$ 2,851,720</u>



## **Required Supplementary Information**

**City of Maquoketa**  
**Budgetary Comparison Schedule**  
**of Receipts, Disbursements, and Changes in Balances -**  
**Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds**  
**Required Supplementary Information**  
**Year Ended June 30, 2006**

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
<b>Receipts:</b>			
Property Tax	\$ 1,570,993	\$ -	\$ -
Tax Increment Financing Collections	385,423	-	-
Other City Tax	568,625	-	-
Licenses and Permits	9,456	-	-
Use of Money and Property	190,391	12,237	540
Intergovernmental	1,357,464	476,664	-
Charges for Service	162,455	1,756,595	28,690
Miscellaneous	533,621	41,438	20,623
Total Receipts	<u>4,778,428</u>	<u>2,286,934</u>	<u>49,853</u>
<b>Disbursements:</b>			
Public Safety	1,154,914	70,688	70,688
Public Works	840,013	51,399	51,399
Culture and Recreation	537,154	32,870	32,870
Community and Economic Development	808,912	49,512	49,512
General Government	420,039	25,710	25,710
Debt Service	814,281	-	-
Capital Projects	833,503	-	-
Business Type Activities	-	5,297,293	-
Total Disbursements	<u>5,408,816</u>	<u>5,527,472</u>	<u>230,179</u>
Excess of Receipts over Disbursements	(630,388)	(3,240,538)	(180,326)
Other Financing Sources, Net	<u>849,056</u>	<u>1,584,176</u>	<u>194,817</u>
Excess of Receipts and Other Financing Sources over Disbursements and Other Financing Uses	218,668	(1,656,362)	14,491
Balances, Beginning of Year	5,539,593	4,156,066	177,531
Balances, End of Year	<u>\$ 5,758,261</u>	<u>\$ 2,499,704</u>	<u>\$ 192,022</u>

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 1,570,993	\$ 1,458,282	\$ 1,458,282	\$ 112,711
385,423	593,025	593,025	(207,602)
568,625	457,726	457,726	110,899
9,456	8,925	8,925	531
202,088	189,735	337,810	(135,722)
1,834,128	2,795,157	3,398,369	(1,564,241)
1,890,360	1,922,603	1,976,382	(86,022)
554,436	179,504	288,018	266,418
<u>7,015,509</u>	<u>7,604,957</u>	<u>8,518,537</u>	<u>(1,503,028)</u>
1,154,914	1,015,980	1,313,937	159,023
840,013	642,168	950,035	110,022
537,154	516,405	578,284	41,130
808,912	221,327	1,032,555	223,643
420,039	375,912	383,612	(36,427)
814,281	859,684	980,035	165,754
833,503	987,921	1,695,961	862,458
5,297,293	4,251,921	5,961,162	663,869
<u>10,706,109</u>	<u>8,871,318</u>	<u>12,895,581</u>	<u>2,189,472</u>
(3,690,600)	(1,266,361)	(4,377,044)	686,444
<u>2,238,415</u>	<u>551,000</u>	<u>1,828,819</u>	<u>409,596</u>
(1,452,185)	(715,361)	(2,548,225)	1,096,040
9,518,128	9,400,828	9,695,659	(177,531)
<u>\$ 8,065,943</u>	<u>\$ 8,685,467</u>	<u>\$ 7,147,434</u>	<u>\$ 918,509</u>

See Accompanying Independent Auditor's Report

## **City of Maquoketa**

### **Notes to Required Supplementary Information – Budgetary Reporting**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities, and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds, and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted revenues by \$3,929,838 and increased budgeted disbursements by \$5,762,702. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the general government functions.

## **Other Supplementary Information**

**City of Maquoketa**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Nonmajor Governmental Funds**  
**As of and for the Year Ended June 30, 2006**

	Special Revenue		
	DARE	Bi-Centennial	Economic Development Revolving
<b>Receipts:</b>			
Property Tax	\$ -	\$ -	\$ -
Tax Increment Financing Collections	-	-	-
Other City Tax	-	-	-
Use of Money and Property	-	-	720
Intergovernmental	-	-	-
Miscellaneous	-	1	-
Total Receipts	-	1	720
<b>Disbursements:</b>			
Operating:			
Public Safety	5	-	-
Public Works	-	-	-
Culture and Recreation	-	23	-
Community and Economic Development	-	-	-
General Government	-	-	-
Debt Service	-	-	-
Capital Projects	-	-	-
Total Disbursements	5	23	-
Excess (Deficiency) of Receipts Over (Under) Disbursements	(5)	(22)	720
<b>Other Financing Sources (Uses):</b>			
Operating Transfers In	-	-	-
Operating Transfers Out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Cash Balances	(5)	(22)	720
Cash Balances, Beginning of Year	338	1,317	176,614
Cash Balances, End of Year	<u>\$ 333</u>	<u>\$ 1,295</u>	<u>\$ 177,334</u>
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special Revenue Funds	\$ 333	\$ 1,295	\$ 177,334
Capital Project Fund	-	-	-
Total Cash Basis Fund Balance	<u>\$ 333</u>	<u>\$ 1,295</u>	<u>\$ 177,334</u>

Urban Renewal Tax Increment	Housing Assistance Program	Employee Benefits	Police Forfeiture	Local Option Sales Tax	Jackson County Task Force
\$ -	\$ -	\$ 380,102	\$ -	\$ -	\$ -
385,423	-	-	-	-	-
-	-	-	-	374,561	-
-	-	-	-	-	-
-	-	-	-	-	89,125
-	285,350	-	3,796	-	-
<u>385,423</u>	<u>285,350</u>	<u>380,102</u>	<u>3,796</u>	<u>374,561</u>	<u>89,125</u>
-	-	47,037	830	-	49,128
-	-	33,024	-	-	-
-	-	12,419	-	-	-
501,690	224,978	-	-	-	-
-	-	27,648	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>501,690</u>	<u>224,978</u>	<u>120,128</u>	<u>830</u>	<u>-</u>	<u>49,128</u>
(116,267)	60,372	259,974	2,966	374,561	39,997
354,032	-	-	-	-	-
(156,226)	-	(181,856)	-	(374,561)	(47,811)
197,806	-	(181,856)	-	(374,561)	(47,811)
81,539	60,372	78,118	2,966	-	(7,814)
(533,901)	(91,112)	(142,205)	4,083	-	357
<u>\$ (452,362)</u>	<u>\$ (30,740)</u>	<u>\$ (64,087)</u>	<u>\$ 7,049</u>	<u>\$ -</u>	<u>\$ (7,457)</u>
(452,362)	\$ (30,740)	\$ (64,087)	\$ 7,049	\$ -	\$ (7,457)
-	-	-	-	-	-
<u>\$ (452,362)</u>	<u>\$ (30,740)</u>	<u>\$ (64,087)</u>	<u>\$ 7,049</u>	<u>\$ -</u>	<u>\$ (7,457)</u>

(Continued)

**City of Maquoketa**  
**Statement of Cash Receipts, Disbursements, and Changes in Cash Balances**  
**Nonmajor Governmental Funds (Continued)**  
**As of and for the Year Ended June 30, 2006**

	Capital Projects		
	Library	Airport	Total
<b>Receipts:</b>			
Property Tax	\$ -	\$ -	\$ 380,102
Tax Increment Financing Collections	-	-	385,423
Other City Tax	-	-	374,561
Use of Money and Property	-	180	900
Intergovernmental	-	-	89,125
Miscellaneous	-	-	289,147
Total Receipts	-	180	1,519,258
<b>Disbursements:</b>			
Operating:			
Public Safety	-	-	97,000
Public Works	-	-	33,024
Culture and Recreation	-	-	12,442
Community and Economic Development	-	-	726,668
General Government	-	-	27,648
Debt Service	-	-	-
Capital Projects	7,480	7,975	15,455
Total Disbursements	7,480	7,975	912,237
Excess (Deficiency) of Receipts Over (Under) Disbursements	(7,480)	(7,795)	607,021
<b>Other Financing Sources (Uses):</b>			
Operating Transfers In	7,480	13,000	374,512
Operating Transfers Out	-	-	(760,454)
Total Other Financing Sources (Uses)	7,480	13,000	(385,942)
Net Change in Cash Balances	-	5,205	221,079
Cash Balances, Beginning of Year	31	28,852	(555,626)
Cash Balances, End of Year	\$ 31	\$ 34,057	\$ (334,547)
<b>Cash Basis Fund Balances</b>			
Reserved:			
Debt Service	\$ -	\$ -	\$ -
Unreserved:			
Special Revenue Funds	-	-	(368,635)
Capital Project Fund	31	34,057	34,088
Total Cash Basis Fund Balance	\$ 31	\$ 34,057	\$ (334,547)

See Accompanying Independent Auditor's Report



**City of Maquoketa**  
**Schedule of Indebtedness**  
**Year Ended June 30, 2006**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Bonds:			
Urban Renewal	June 1, 1991	5.90% - 6.90%	\$ <u>385,000</u>
General Obligation Notes:			
2005A Refunding Capital Loan Notes	August 10, 2005	2.75% - 3.90%	\$ 2,095,000
2006A Capital Loan Notes	March 1, 2006	3.55% - 4.00%	<u>515,000</u>
Total			\$ <u>2,610,000</u>
Revenue Bonds:			
Parking Lot	December 1, 1967	3.50%	\$ 221,000
Department of Natural Resources (DNR)			
Revolving Loan - Sewer	August 8, 1995	3.74%	<u>2,046,000</u>
Total			\$ <u>2,267,000</u>
General Obligation Notes:			
Corporate Purpose	February 1, 1996	4.30% - 5.60%	\$ 2,200,000
Corporate Purpose	August 1, 1999	4.40% - 5.20%	360,000
Corporate Purpose	March 1, 2000	5.00% - 5.90%	135,000
Corporate Purpose	June 1, 2001	5.35% - 5.55%	2,500,000
Corporate Purpose	October 1, 2002	3.00% - 4.80%	890,000
Corporate Purpose	July 1, 2000	5.10% - 5.90%	<u>1,290,000</u>
Total			\$ <u>7,375,000</u>
Revenue Notes:			
Sewer	May 3, 2002	3.00%	\$ 2,500,000
Water	June 13, 2005	3.00%	<u>2,500,000</u>
Total			\$ <u>5,000,000</u>
Real Estate Contracts	April 3, 1990	7.00%	\$ <u>162,189</u>
Real Estate Contract	March 1, 2002	5.60%	\$ <u>137,000</u>
Real Estate Contract	December 22, 2003	5.00%	\$ <u>28,400</u>

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 100,000	\$ -	\$ 100,000	\$ -	\$ 3,250	\$ -
\$ -	\$ 2,095,000	\$ 50,000	\$ 2,045,000	\$ 1,819	\$ -
-	515,000	-	515,000	-	-
\$ -	\$ 2,610,000	\$ 50,000	\$ 2,560,000	\$ 1,819	\$ -
\$ 2,000	\$ -	\$ -	\$ 2,000	\$ -	\$ -
1,271,000	-	845,000	426,000	30,158	-
\$ 1,273,000	\$ -	\$ 845,000	\$ 428,000	\$ 30,158	\$ -
\$ 1,395,000	\$ -	\$ 895,000	\$ 500,000	\$ 73,920	\$ -
215,000	-	180,000	35,000	10,723	-
115,000	-	115,000	-	5,051	-
2,500,000	-	-	2,500,000	135,745	-
820,000	-	75,000	745,000	34,485	-
1,130,000	-	1,050,000	80,000	65,408	-
\$ 6,175,000	\$ -	\$ 2,315,000	\$ 3,860,000	\$ 325,332	\$ -
\$ 2,323,687	\$ -	\$ 63,000	\$ 2,260,687	\$ 68,766	\$ -
576,848	1,921,152	-	2,498,000	52,667	-
\$ 2,900,535	\$ 1,921,152	\$ 63,000	\$ 4,758,687	\$ 121,433	\$ -
\$ 12,876	\$ -	\$ 12,876	\$ -	\$ 302	\$ -
\$ 82,200	\$ -	\$ 13,700	\$ 68,500	\$ 4,603	\$ -
\$ 18,720	\$ -	\$ 4,680	\$ 14,040	\$ 936	\$ -

See Accompanying Independent Auditor's Report

**City of Maquoketa**  
**Schedule of Bond and Note Maturities**  
**Year Ended June 30, 2006**

General Obligation Note 2005A Refunding CLN Issued August 10, 2005			General Obligation Note 2006A CLN Issued March 1, 2006		
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	
2007	2.95%	\$ 40,000	3.55%	\$ 120,000	
2008	3.10%	25,000	3.60%	130,000	
2009	3.25%	90,000	3.65%	130,000	
2010	3.40%	95,000	3.70%	90,000	
2011	3.50%	415,000	3.80%	15,000	
2012	3.60%	390,000	3.90%	15,000	
2013	3.70%	405,000	4.00%	15,000	
2014	3.80%	415,000		-	
2015	3.90%	170,000		-	
Total		\$ 2,045,000		\$ 515,000	

Real Estate Contract Issued December 22, 2003			Real Estate Contract Issued March 1, 2002		
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	
2007	5.00%	\$ 4,680	5.60%	\$ 13,700	
2008	5.00%	4,680	5.60%	13,700	
2009	5.00%	4,680	5.60%	13,700	
2010		-	5.60%	13,700	
2011		-	5.60%	13,700	
2012		-		-	
2013		-		-	
2014		-		-	
2015		-		-	
2016		-		-	
2017		-		-	
2018		-		-	
2019		-		-	
2020		-		-	
2021		-		-	
2022		-		-	
2023		-		-	
2024		-		-	
2025		-		-	
2026		-		-	
Total		\$ 14,040		\$ 68,500	

## Revenue Bonds

Year Ending June 30,	Sewer		Parking Lot		Total
	Interest Rates	Amount	Interest Rates	Amount	
	(DNR Revolving Loan)		Issued December 1, 1967		
	Originally Issued				
	August 10, 1994				
	Exchanged and				
	Issued August 8, 1995				
2007	3.74%	\$ 99,000	3.50%	\$ 2,000	\$ 101,000
2008	3.74%	103,000	-	-	103,000
2009	3.74%	107,000	-	-	107,000
2010	3.74%	111,000	-	-	111,000
2011	3.74%	6,000	-	-	6,000
2012		-		-	-
2013		-		-	-
2014		-		-	-
2015		-		-	-
Total		\$ 426,000		\$ 2,000	\$ 428,000

## Revenue Notes

Year Ending June 30,	Sewer		Water		Total
	Interest Rates	Amount	Interest Rates	Amount	
	Issued May 3, 2002		Issued June 13, 2005		
2007	3.00%	\$ 65,000	3.00%	\$ 93,000	\$ 158,000
2008	3.00%	67,000	3.00%	96,000	163,000
2009	3.00%	69,000	3.00%	99,000	168,000
2010	3.00%	71,000	3.00%	102,000	173,000
2011	3.00%	73,000	3.00%	105,000	178,000
2012	3.00%	76,000	3.00%	108,000	184,000
2013	3.00%	78,000	3.00%	111,000	189,000
2014	3.00%	80,000	3.00%	114,000	194,000
2015	3.00%	83,000	3.00%	118,000	201,000
2016	3.00%	85,000	3.00%	121,000	206,000
2017	3.00%	205,000	3.00%	125,000	330,000
2018	3.00%	211,000	3.00%	129,000	340,000
2019	3.00%	218,000	3.00%	133,000	351,000
2020	3.00%	224,000	3.00%	136,000	360,000
2021	3.00%	231,000	3.00%	141,000	372,000
2022	3.00%	238,000	3.00%	145,000	383,000
2023	3.00%	186,687	3.00%	149,000	335,687
2024		-	3.00%	154,000	154,000
2025		-	3.00%	158,000	158,000
2026		-	3.00%	161,000	161,000
Total		\$ 2,260,687		\$ 2,498,000	\$ 4,758,687

(Continued)

**City of Maquoketa**  
**Schedule of Bond and Note Maturities (Continued)**  
**Year Ended June 30, 2006**

Year Ending June 30,	General Obligation Notes					
	Corporate Purpose		Corporate Purpose		Corporate Purpose	
	Issued October 1, 2002		Issued February 1, 1996		Issued July 1, 2000	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2007	3.60%	\$ 75,000	4.90%	\$ 115,000	5.55%	\$ 40,000
2008	3.85%	80,000	5.00%	120,000	5.60%	40,000
2009	4.05%	80,000	5.15%	130,000		-
2010	4.20%	85,000	5.30%	135,000		-
2011	4.35%	90,000		-		-
2012	4.50%	95,000		-		-
2013	4.60%	95,000		-		-
2014	4.70%	100,000		-		-
2015	4.80%	45,000		-		-
Total		<u>\$ 745,000</u>		<u>\$ 500,000</u>		<u>\$ 80,000</u>

Year Ending June 30,	General Obligation Notes					
	Corporate Purpose		Corporate Purpose		General	
	Issued August 1, 1999		Issued June 1, 2001		Obligation Notes	
	Interest Rates	Amount	Interest Rates	Amount	Total	Total Maturities
2007	4.85%	\$ 35,000		\$ -	\$ 265,000	\$ 702,380
2008		-		-	240,000	679,380
2009		-		-	210,000	723,380
2010		-		-	220,000	702,700
2011		-		-	90,000	717,700
2012		-		-	95,000	684,000
2013		-		-	95,000	704,000
2014		-		-	100,000	709,000
2015		-	5.35%	730,000	775,000	1,146,000
2016		-	5.40%	760,000	760,000	966,000
2017		-	5.50%	810,000	810,000	1,140,000
2018		-	5.55%	200,000	200,000	540,000
2019		-		-	-	351,000
2020		-		-	-	360,000
2021		-		-	-	372,000
2022		-		-	-	383,000
2023		-		-	-	335,687
2024		-		-	-	154,000
2025		-		-	-	158,000
2026		-		-	-	161,000
Total		<u>\$ 35,000</u>		<u>\$ 2,500,000</u>	<u>\$ 3,860,000</u>	<u>\$ 11,689,227</u>

See Accompanying Independent Auditor's Report

**City of Maquoketa**  
**Schedule of Receipts by Source and Disbursements by Function -**  
**All Governmental Funds**  
**For the Last Four Years**

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Receipts:</b>				
Property Tax	\$ 1,570,993	\$ 1,363,341	\$ 1,387,111	\$ 1,523,876
Tax Increment Financing Collections	385,423	394,665	397,422	297,274
Other City Tax	568,625	448,731	493,801	481,059
Licenses and Permits	9,456	11,440	12,392	26,465
Use of Money and Property	190,391	98,006	188,252	68,678
Intergovernmental	1,357,464	1,127,836	1,541,942	988,589
Charges for Services	162,455	180,297	173,511	242,028
Miscellaneous	533,621	851,524	489,140	1,466,240
Total	<u>\$ 4,778,428</u>	<u>\$ 4,475,840</u>	<u>\$ 4,683,571</u>	<u>\$ 5,094,209</u>
<b>Disbursements:</b>				
Operating:				
Public Safety	\$ 1,154,914	\$ 880,321	\$ 1,127,686	\$ 1,096,237
Public Works	840,013	827,605	704,339	942,530
Culture and Recreation	537,154	534,748	518,365	495,077
Community and Economic Development	808,912	324,020	487,139	350,060
General Government	420,039	608,647	420,332	423,993
Debt Service	814,281	661,767	609,193	613,160
Capital Projects	833,503	258,254	317,252	1,854,959
Total	<u>\$ 5,408,816</u>	<u>\$ 4,095,362</u>	<u>\$ 4,184,306</u>	<u>\$ 5,776,016</u>

**City of Maquoketa**  
**Additional Information Required by the**  
**Sewer Revenue Bond Resolution**  
**June 30, 2006**  
**(Unaudited)**

Insurance - the City has the following insurance coverage.

<b>Insurance Company Address and Policy Number</b>	<b>Insurance Coverage</b>	<b>Amount of Coverage</b>	<b>Expiration Date of Policy</b>
Employers Mutual Companies Des Moines, Iowa Package Policy #8X5-19-34-07	Property Inland Marine General Liability Business Auto Umbrella Excess Employee Dishonesty Linebacker Crime Commercial Output	\$ 19,503,176 811,346 1,000,000 1,000,000 4,000,000 310,000 1,000,000 30,000 27,647,874	4/1/2007 4/1/2007 4/1/2007 4/1/2007 4/1/2007 4/1/2007 4/1/2007 4/1/2007 4/1/2007
Travelers Group Hartford, Connecticut Policy # BAJ-BM21-702X7309-TIL-06	Sewage & Water Treatment & Distribution	\$ 2,000,000	1/1/2007
Old Republic Insurance Company Greensburg, Pennsylvania Policy # PR 227803	Airport Owners and Operators General Liability	\$ 2,000,000	1/1/2007
Nationwide Bethesda, Maryland Policy #5050326247	Flood Insurance Program	\$ 33,300	4/4/2007
VFIS A Division of Glatfelter Insurance Group York, Pennsylvania Policy #VFP 2316-0204C-06	Maquoketa Volunteer Fire Dept. & Rescue Squad	\$ 825,800	1/1/2007
Meinecke-Richards Agency, Inc. Maquoketa, Iowa Policy #FD11573SP	Youth Baseball/Softball	\$ 7,500	11/1/2006
Iowa Municipalities Workers' Compensation Assoc. Des Moines, Iowa Policy #1075-0607	Workers' Compensation Coverage	\$ 2,000,000	7/1/2007

Rate and Number of Users of the System:

User Charges - The minimum sewer charge per month shall be \$21.43 per 100 cubic feet up to 300.

Over 300 cubic feet the charge is \$1.40 per 100 cubic feet as determined in ordinance 867.

Number of Users - The City has approximately 2,500 users.

**City of Maquoketa**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2006**

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency Pass- Through Number</u>	<u>Program Expenditures</u>
Direct:			
Federal Aviation Administration:			
Airport Improvement Program	20.106	AIP #3-19-0055-01	\$ 21,267
Total Direct			<u>21,267</u>
Indirect:			
Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grant/ State's Program	14.228	01-CDTA-COM	1,246
Community Development Block Grant/ State's Program	14.228	04-WS-059-99	407,017
Community Development Block Grant/ State's Program	14.228	04-HSG-015	157,216
HOME Investment Partnership Programs	14.239	03-HM-174	67,762
			<u>633,241</u>
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Drinking Water State Revolving Fund	66.468	FS-49-04-DWSRF-013	193,718
			<u>193,718</u>
Department of Justice:			
Office of Drug Control Policy:			
Edward Byrne Justice Assistance Grant Program	16.579	05JAG-A17	88,856
			<u>88,856</u>
Department of Homeland Security:			
Federal Emergency Management Agency:			
Public Assistance Grant	83.544	2005-FG-16370	24,367
			<u>24,367</u>
Department of Transportation:			
Iowa Department of Public Safety:			
OWI Prevention Grant	20.605	PAP 05-163 Task 45	10,500
			<u>10,500</u>
Total Indirect			<u>950,682</u>
Total			\$ <u><u>971,949</u></u>

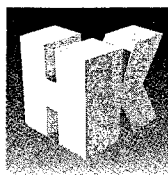
See Accompanying Independent Auditor's Report



**City of Maquoketa**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2006**

**NOTE 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Maquoketa, Iowa, and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



**Honkamp Krueger & Co., P.C.**  
Certified Public Accountants  
& Business Consultants

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

To the Honorable Mayor and  
Members of the City Council  
City of Maquoketa  
Maquoketa, Iowa

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Maquoketa, Iowa, as of and for the year ended June 30, 2006, which collectively comprises the City's basic financial statements listed in the table of contents, and have issued our report thereon dated August 14, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City of Maquoketa's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Maquoketa's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe Item II-A-06 to be a material weakness.

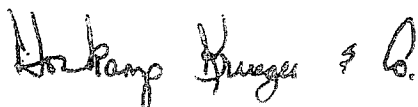
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Maquoketa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

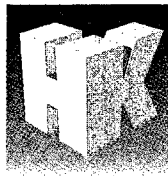
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Maquoketa and other parties to whom the City of Maquoketa may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Maquoketa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in dark ink, appearing to read "Hank Burger".

Dubuque, Iowa  
August 14, 2006



**Honkamp Krueger & Co., PC.**  
Certified Public Accountants  
& Business Consultants

**Independent Auditor's Report on Compliance  
with Requirements Applicable to Each Major Program  
and on Internal Control over Compliance in Accordance with OMB  
Circular A-133**

To the Honorable Mayor and  
Members of the City Council  
City of Maquoketa  
Maquoketa, Iowa

**Compliance**

We have audited the compliance of the City of Maquoketa, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2006. The City of Maquoketa's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its major federal programs is the responsibility of the City of Maquoketa's management. Our responsibility is to express an opinion on the City of Maquoketa's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Maquoketa's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Maquoketa's compliance with those requirements.

In our opinion, the City of Maquoketa complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006.

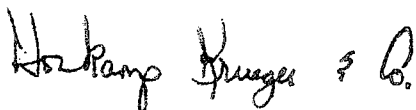
### Internal Control Over Compliance

The management of the City of Maquoketa is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Maquoketa's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Maquoketa's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable conditions are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation of a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness. (Item III-A-06)

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Maquoketa and other parties to whom the City of Maquoketa may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Mark Kamp in cursive script.

Dubuque, Iowa  
August 14, 2006

**City of Maquoketa**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2006**

**Part I. Summary of the Independent Auditors' Results**

- a. Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. Reportable conditions in internal control over the major programs were disclosed by the audit of the financial statements, including material weaknesses.
- e. An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- f. The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g. The major programs were CFDA Number 14.228 – Community Development Block Grants/State's Program and CFDA Number 66.468 – Drinking Water State Revolving Fund Program.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The City of Maquoketa did not qualify as a low-risk auditee.

**Part II. Findings Related to the Financial Statements**

**Instances of Non-Compliance:**

No matters were noted.

**City of Maquoketa**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2006**

**Reportable Conditions:**

- II-A-06    **Segregation of Duties:** One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one employee has the ability to enter cash receipts, collect cash, make deposits, make entries to the general ledger, and sign checks.

**Recommendation:** We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

**Response:** We would like to provide the recommended level of financial oversight, but are unable to do so. Like many cities our size, the economics of our situation prohibits us from hiring more office staff to provide for this function.

**Conclusion:** Response acknowledged.

- II-B-06    **Records of Accounts:** The Police Department (DARE) maintains the accounting records pertaining to the operation of the Police Department (DARE). These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

**Recommendation:** For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's records.

**Response:** We will adjust our financial statements to include this information. The financial activity and balances of the Police Department (DARE) will be included in the City Clerk's records in the future.

**Conclusion:** Response acknowledged.

**City of Maquoketa**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2006**

**Part III. Findings and Questioned Costs for Federal Awards**

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

CFDA Number 14.228: Community Development Block Grants/State's Program  
Pass-through Agency Number: 04-WS-059-99

Department of Housing and Urban Development  
Passed through the Iowa Department of Economic Development

III-A-06 **Segregation of Duties over Federal Receipts**: A lack of segregation of duties over receipts and disbursements, including those related to federal programs, exist in the City's finance department. See audit finding II-A-06.

CFDA Number 66.468: Drinking Water State Revolving Fund Program  
Pass-through Agency Number: FS-49-04-DWSRF-013

U.S. Environmental Protection Agency  
Passed through the Iowa Department of Natural Resources

III-A-06 **Segregation of Duties over Federal Receipts**: A lack of segregation of duties over receipts and disbursements, including those related to federal programs, exist in the City's finance department. See audit finding II-A-06.



**City of Maquoketa**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2006**

**Part IV: Other Findings Related to Statutory Reporting**

IV-A-06 **Certified Budget:** Disbursements during the year ended June 30, 2006, exceeded the amount budgeted in the general government function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

**Recommendation:** The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

**Response:** The budget will be amended in the future, if applicable.

**Conclusion:** Response accepted.

IV-B-06 **Questionable Disbursements:** We noted no disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-06 **Travel Expense:** No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-06 **Business Transactions:** Business transactions between the City and City officials or employees are detailed as follows:

<b><u>Name, Title and Business Connection</u></b>	<b><u>Transaction Description</u></b>	<b><u>Amount</u></b>
Jeff Baker, City Employee Owner of J & S Auto	Repairs & Supplies	\$ 1,608
Tom Messerli, Mayor Owner of A-1 Electronics	Repairs	203
Tim Clark, Council Member Part Owner of Clark Saw Center	Repairs & Supplies	242
Marty Balliu, Volunteer Fireman Contractor	Rehab / Remodel	81,640

**City of Maquoketa**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2006**

In accordance with Chapter 362.5(10) of the Code of Iowa, transactions with the City officials and employees less than \$1,500 during the fiscal year do not represent conflicts of interest.

The transactions with the City Employee and Volunteer Fireman in excess of \$1,500 were entered into through the bid process or council approval, and do not represent conflicts of interest.

IV-E-06 **Bond Coverage:** Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-06 **Council Minutes:** No transactions were found that we believe should have been approved in the Council minutes, but were not.

IV-G-06 **Deposits and Investments:** The City held a certificate of deposit (Library Corporation) at a depository not authorized by the Council.

**Recommendation:** The City should only deposit funds in allowable depositories.

**Response:** We will and revise our policies and deposit only in allowable depositories.

**Conclusion:** Response accepted.

IV-H-06 **Revenue Bonds:** We noted no instances of noncompliance with the provisions of the City's revenue bond resolutions.

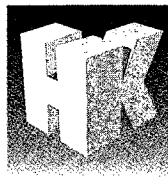
IV-I-06 **Payment of General Obligation Bonds:** All general obligation bond and note payments were paid from the Debt Service Fund in accordance with Chapter 384.4 of the Code of Iowa.

IV-J-06 **Financial Condition:** The Urban Renewal Tax Increment, Housing Assistance Program, Employee Benefits, Jackson County Task Force, Storm Water, and Debt Service had deficit balances at June 30, 2006 totaling \$912,344.

**Recommendation:** The City should investigate alternatives to eliminate these deficits in order to return these funds to sound financial position.

**Response:** The City will receive grant money, donations, and transfer funds to eliminate these fund balances.

**Conclusion:** Response accepted.



**Honkamp Krueger & Co., PC.**  
Certified Public Accountants  
& Business Consultants

To the City Council  
City of Maquoketa  
Maquoketa, Iowa

We have audited the financial statements of the City of Maquoketa for the year ended June 30, 2006, and have issued our report thereon dated August 14, 2006. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in our engagement letter dated June 12, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the City of Maquoketa's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City of Maquoketa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City of Maquoketa's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City of Maquoketa's

compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Maquoketa's compliance with those requirements.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Maquoketa are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Maquoketa's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of Maquoketa, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Maquoketa's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination

of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

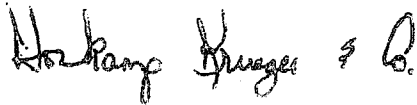
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

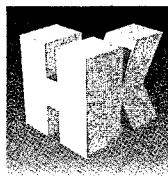
We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the City Council and management of the City of Maquoketa and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Horang Hwang & Co." with a stylized flourish at the end.

Dubuque, Iowa  
August 14, 2006



**Honkamp Krueger & Co., P.C.**

*Certified Public Accountants  
& Business Consultants*

City Council  
City of Maquoketa  
Maquoketa, Iowa

In planning and performing our audit of the financial statements of the City of Maquoketa for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operations that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City's ability to initiate, record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we believe to be a material weakness.

**Segregation of Duties**

A limited number of City personnel perform many of the accounting and financial functions. Therefore, many of the aspects of an ideal internal accounting control structure are missing in the City due to an inadequate segregation of duties. We recognize that the hiring of additional personnel may not be the most cost effective method to maximize the segregation of accounting duties. However, the City should be aware of this condition and realize that the concentration of duties and responsibilities given to a limited number of City personnel is not ideal with respect to the internal control structure.

Additional items that came to our attention during the course of our audit, which are not believed to be material weaknesses, and additional information we would like to share with you, include the following:

### Outstanding Checks

The bank reconciliation includes outstanding checks totaling \$484.13 that are older than one year. The City should implement a policy of management review of old outstanding items. The following is a summary of how the checks are to be handled.

### Unclaimed Paychecks

Paychecks that are unclaimed and uncashed by employees become a form of "abandoned property" the employer must pay over to the appropriate state agency (usually the treasury) if they remain unclaimed for a certain number of years.

Generally, unclaimed wages must be returned to the state of the employee's last known address. If there is no address, then it should be returned to the state in which the business remitting the funds is incorporated. Most states require employers to contact employees in an attempt to keep unclaimed wages from becoming abandoned property.

The following table shows the length of time before unclaimed wages become abandoned property and provide contact information for Iowa, Illinois, and Wisconsin. For the other states, information is available by request.

State	Unclaimed Wages Become Abandoned After...	State Unclaimed Property Offices Mailing Address
IOWA	1 Year	State Treasurer's Office Unclaimed Property Division State Capitol Building Des Moines, IA 50319 Phone: (515) 281-5367
ILLINOIS	5 Years	Office of State Treasurer Unclaimed Property Division P.O. Box 19496 Springfield, IL 62794-9496 Phone: (217) 782-6692
WISCONSIN	1 Year	State Treasurer's Office Unclaimed Property Division P.O. Box 2114 Madison, WI 53701-2114 Phone: (608) 267-7977

### Other Unclaimed Checks

There are no laws concerning unclaimed checks that we could find. Discussions with bank personnel indicate that banks will honor checks, regardless of the date written, unless there is a "valid date" printed on the check.

### Risk-Based Auditing

The AICPA issued several professional standards in March 2006 which collectively form the Risk Assessment Group of Standards (RAS). These standards will become effective for your 2008 audit.

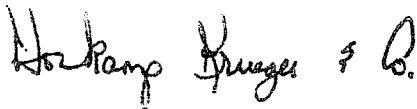
The above mentioned standards will change the audit process going forward. The RAS require the auditor to do in depth planning and documentation of internal controls before audit fieldwork begins. We will also be doing tests of your internal controls. A level of risk will be assessed to each material balance sheet class based on the strength of controls.

The result is that we will spend more time in the field prior to year-end.

### Depositories

During the year, it was noted that the City held a certificate of deposit (Library Corporation) at a financial institution that was not authorized by the Council. The City should review its authorized depository listing to include this institution or move the certificate of deposit to another allowable depository.

This report is intended solely for the information and use of the City Council and management of the City of Maquoketa, is not intended to be, and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, appearing to read "Hank Granger & Co." with a stylized flourish at the end.

Dubuque, Iowa  
August 14, 2006



**City of Maquoketa**  
**Summary Schedule of Prior Federal Audit Findings**  
**For the Year Ended June 30, 2006**

**Finding III-A-05. Lack of Segregation of Duties**

Contact person responsible for corrective action: Diane Frandsen (563) 652-2484

**Corrective Action**

Response: The City concurs with the recommendations, however, believes the supervision by management and City Council members are considered mitigating factors in the lack of segregation of duties. The City recognizes that it would not be cost effective to hire additional personnel to maximize the segregation of accounting duties due to the size of the City. The City is aware of the condition and will continue to monitor and implement compensating controls.

**Date of Completion**

Ongoing

**City of Maquoketa**  
**Corrective Action Plan for Federal Audit Findings**  
**For the Year Ended June 30, 2006**

**Finding III-A-06. Lack of Segregation of Duties**

Contact person responsible for corrective action: Diane Frandsen (563) 652-2484

**Corrective Action**

Response: The City concurs with the recommendations, however, believes the supervision by management and City Council members are considered mitigating factors in the lack of segregation of duties. The City recognizes that it would not be cost effective to hire additional personnel to maximize the segregation of accounting duties due to the size of the City. The City is aware of the condition and will continue to monitor and implement compensating controls.

**Date of Completion**

Ongoing.